Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 9/24/2002

GAIN Report #TW2035

Taiwan

Fresh Deciduous Fruit

Annual

2002

Approved by:
Jonathan Gressel
American Institute in Taiwan

Prepared by:
Jeff Miller

Report Highlights:

Consumption of the apple dropped 9% in MY2001 over the previous marketing year due to the generally poor economic climate. With a total 122 thousand metric tons imported, US suppliers saw their shipments to Taiwan fall 30% due to a combination of soft Taiwan demand, the entry of competitors South Korea and Japan, and higher US crop prices. The US should win back some market share next year, but a recovery in demand is not expected until MY2003.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Taipei ATO [TW2], TW

Table of Contents

Executive Summary

Consumption of the apple, the most popular fresh fruit in Taiwan after the orange, dropped 9% in MY2001 over the previous marketing year due to the generally poor economic climate. This contraction, coupled with the lifting of quota-based restrictions (or bans) on non-North American exporting countries and high prices for the 2001 US crop made the year more than doubly difficult for US exporters. US apple suppliers saw their exports to the island fall nearly 30% and their market share shrink from 84% in MY2000 to 66% in MY2001.

MY2002 promises to be another tough year for US apple suppliers as a revival in Taiwan demand seems unlikely during the year and US export prices look set to remain high. However, the US is expected to regain some market share lost this year to northern hemisphere producers South Korea and Japan due to general importer and consumer dissatisfaction with the handling and quality of Fuji apples from those countries.

Taiwan is seeing a bumper crop of its own apples (late summer, early autumn) this year, although the relative insignificance of domestic produce in overall consumption and relatively unpopular varieties grown will have a minimal impact on imports. Competitors for the Taiwan market in MY2002 and MY2003 will be the same as this year. Even with Taiwan's entry into the World Trade Organization (WTO) in January 2002, China will remain barred from exporting apples to the island through the foreseeable future due to unresolved phytosanitary issues, the resolution of which requires initiation of formal negotiations and extensive review of China's crop fields and handling techniques.

Production

Apple production staged a slight rally last season due to good growing conditions in the high mountain fruit growing areas of central Taiwan. With about the same acreage under cultivation, Taiwan apple growers expanded output nearly 6% for MY2001. Taiwan authorities forecast an exceptionally good crop for MY2002 due to moderate, drier conditions in production areas. The MY2002 crop forecast calls for 9,500 metric tons to be harvested for commercial use, an increase of 25% over the MY2000 crop.

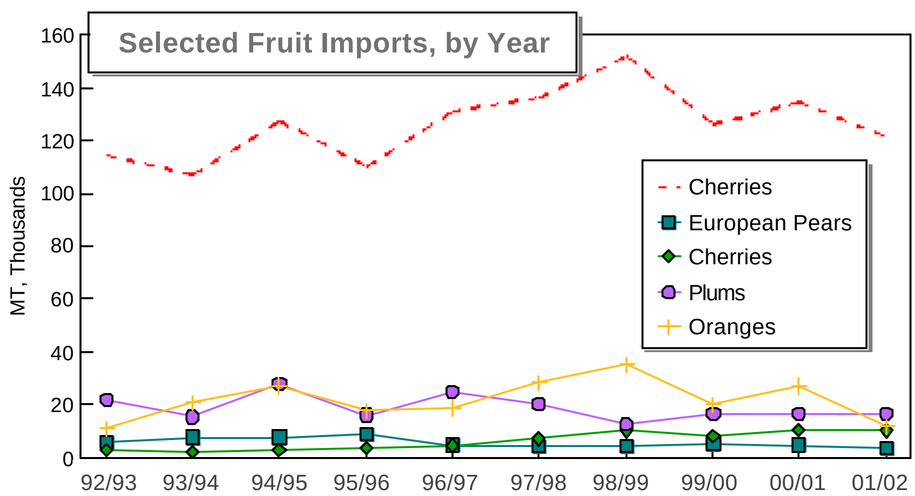
Local production is principally the *Star King* variety. Eighty-percent of commercially-grown local apples are estimated as sold for fresh consumption, with the remainder being used in prepared foods -- processed typically not very far from the orchard. Locally-grown apples seen being sold recently at an outdoor market were priced at NT$50/kg ($0.66/lb.).

Taiwan's apple growers face significant financial difficulties to make crop operations earn a sustainable profit and continued contraction of field acreage used for commercial production defines the long-term trend for the industry. However, current sustained economic difficulties in the economy at large will likely mitigate the move out of the industry in the short term and the area harvested is not expected to change significantly over the next 1~2 years.

Consumption

Market demand for apples dropped by 9% during MY2001, erasing last year's 6.3% rise and returning domestic consumption to MY1999 levels. The fall reflects a general contraction in consumer spending and similar drops were also seen in other fruit categories. The contraction in apple consumption during the past winter was particularly severe.

A return to economic growth will provide the basis for a solid revival in demand for basic food items -- which includes fruit (and apples). Should the economy continue to falter through this year, a further erosion in demand of about 3~5% for MY2002 is likely. The potential for further falls beyond this are unlikely due to the continued importance of fruit (and apples) in even a Taiwan diminished diet. However, continued economic uncertainty may negatively impact upon the long-held Taiwan consumer preference for only premium quality apples and permit lesser-quality, lower priced apples a growing niche in the marketplace.



The apple is, far & away, the most heavily consumed imported fruit in Taiwan. Only oranges, 96% of which are grown domestically, are consumed in greater quantity.

Nearly all fresh fruit imports, apples included, are consumed as fresh produce. The Taiwan consumer's emphasis on both convenience and freshness helps channel about 50% of fresh apple sales through traditional / neighborhood wet markets. Of the remainder, around 20% are sold in small fruit shops and 10% by traveling vendors, with the rest absorbed by grocery stores, hypermarkets and large hotel and restaurant accounts. Warehouse grocers (hypermarkets) currently account for between 8 and 9% of domestic fresh apple sales. Their increasing market share has been gained principally at the expense of supermarket / grocery chains, although hypermarkets are increasingly eating into neighborhood wet markets as the convenience and pricing offered in hypermarkets is winning business from Taiwan's small-scale retailer communities (particularly in the Taipei metropolitan area) which traditionally purchased produce in wet markets.

Fuji, with its sweet taste and firm texture, remains the overwhelmingly favored variety - retaining slightly better than 80% of total retail apple sales. The remainder is comprised largely of Gala, Pacific Rose, Red Delicious, and Granny Smith. The former two are principally used to fill gaps in supply of Fujis experienced during late season months.

Lacking the Western penchant for sweet snacks & desserts and blessed with a rich variety of native fruits, the vast majority of Taiwanese view fruit as an important part of the daily diet. Fruit is frequently eaten as a snack as well as dessert and is the most common food prepared to serve to visitors in the home or office.

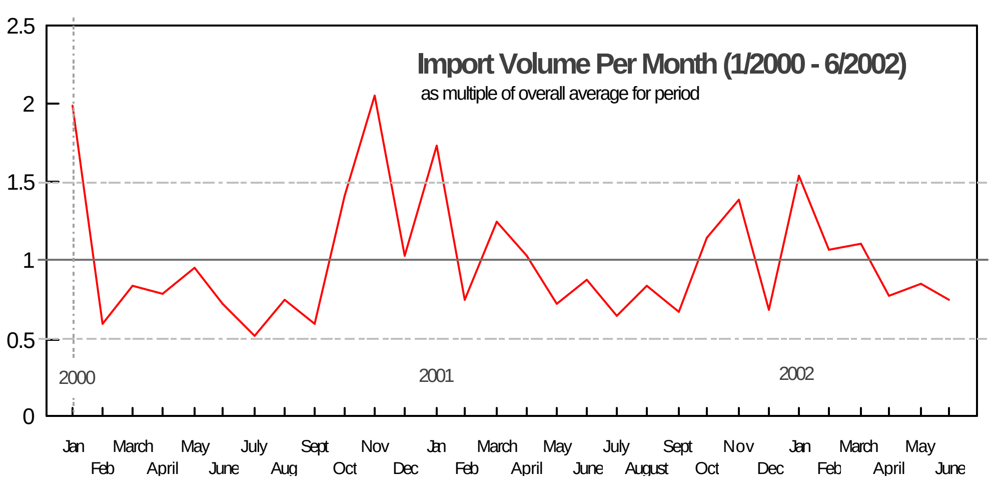
The Taiwan consumers' preference for the apple over other fruit is grounded in a number of factors, including appreciation of nutritive/health benefits, relatively low price, a strong quality image, attractive appearance, and relatively long shelf life. Furthermore, the year-round availability of the apple is attractive to retailers, because point-of-sale formats need not be rotated - as is necessary for fruits available only at certain times of the year.

Good "Face Value"

Two of the apple's popularity factors noted above, attractive appearance (red, round, shiny) and quality image, reflect consumer priorities which tend to be more uniquely Taiwanese (or Chinese) than others mentioned (which tend to be more universal). Unless bought solely for personal consumption, the color, size, and general appearance of fruit is typically quite important to the retail customer. Serving good-looking fruit to family, friends, or clients intimates good manners, generosity, and warmth. The "best-looking" fruit, often specially-presented on store shelves or sold in gift packaging, fetches the highest prices. The most expensive apples on the market, Japan-grown Fujis, sell well at premiums of 100% or more over slightly smaller rivals because of their size and consumers' quality perceptions.

Seasonal Preferences

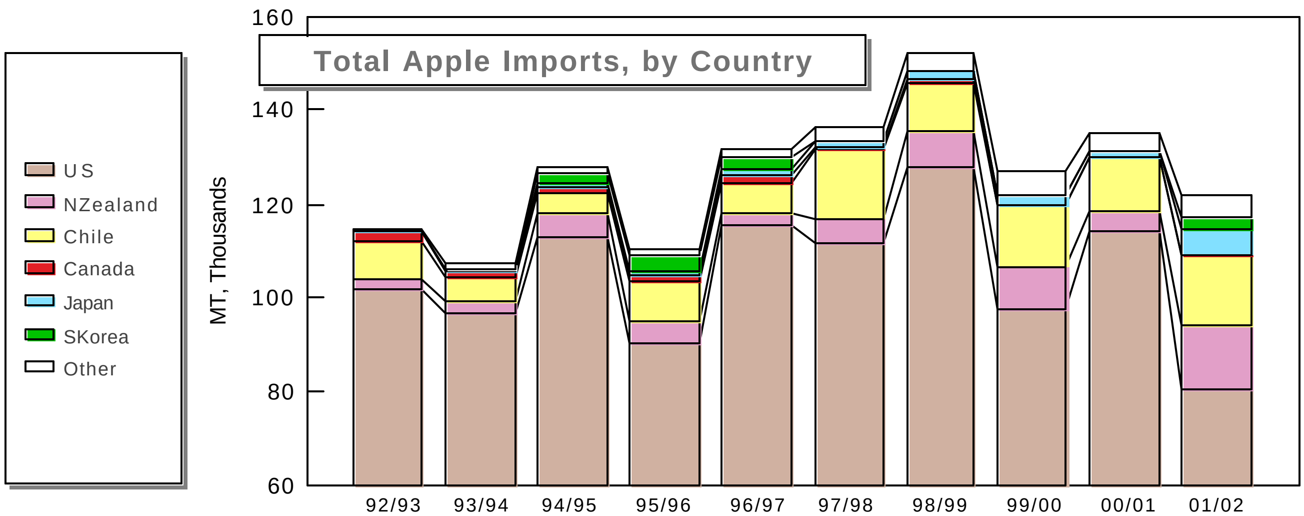
While eaten year round, Taiwan consumers purchase significantly more apples during the autumn and winter months - the prime production months for northern hemisphere growers. Reasons for this include general perception of the apple as a "cool weather" fruit and the incorporation of apples into the many festivals held during this time of the year.



The chart to the left helps illustrate the higher-than-average apple imports during Taiwan's autumn & winter months recorded over the past two and a half years.

Trade

Taiwan imported 122 thousand mt of apples during the 2001 marketing year (July 2001 through June 2002). As imports continue to comprise nearly 94% of total consumption, import volumes are very sensitive to changes in domestic demand. Trade volumes are now well off the MY1998 highs (see graph below), with the falloff almost exclusively attributable to poor general economic conditions and uncertainties regarding when an economic turnaround will happen. Continued uncertainties through MY2002 could further erode trade by 3~5%, although industry analysts do not expect volumes to contract much further beyond this due to the solid place the apple has in Taiwan's regular diet.



During 2001/2002, US suppliers were hit hard by two factors: 1) the liberalization of import restrictions / bans on non-North American suppliers and 2) high domestic prices for the 2001/2002 crop in the US. Far from tracking the 9% fall in market consumption, in MY2001 US suppliers saw their share of the Taiwan apple market plunge from 84% to 66% on a volume decrease of nearly 30%.

Taiwan's entry into the WTO saw the lifting of quota restrictions on all countries previously approved to export to the island under quota (Chile, New Zealand, Australia, Japan, South Africa, Argentina, and the European Union) and the removal of a previous ban on apple imports from South Korea. China remains prohibited from exporting fresh apples to Taiwan.

Taiwan currently applies a 20% tariff on apple imports, down significantly from the 50% tariff applied prior to January 2002.

Taiwan currently bans or subjects to pest-free certification requirements imports of apples from countries with the following pests: (1) Mediterranean fruit fly, (2) Peach fruit fly, (3) Codling moth, (4) Apple maggot, (5) Mexican fruit fly, (6) Plum curculio, (7) Queensland fruit fly, (8) South American fruit fly, and (9) Western Flower Thrips. Phytosanitary certificates are required stating that apples are free from (3), (4) (5), (6), and (9).

Taiwan defines maximum residue levels (MRLs) for around 60 chemicals. Shipments are checked on a random basis. Taiwan's Department of Health is currently reviewing current permitted chemicals and MRLs for each. The US Agricultural Affairs Office in Taipei and US industry has worked to ensure that all pesticide and other chemicals of concern to US industry are permitted under temporary arrangement during the review period as well as to see that chemicals and residue levels will be defined in such a way as to not become a trade barrier to US suppliers. This review process is expected to run several years before a formal announcement regarding new MRLs is made.

Comments from industry indicate that fruit importers were particularly interested to place orders with exporters of Fuji apples in South Korea and Japan in the months immediately following Taiwan's accession into the WTO (which occurred on 1 January 2002). This interest was driven both by consumer interest in apples from these markets, which had previously been barred (in the case of South Korea) or severely restricted (in the case of Japan) from sales into Taiwan, and by an interest to find alternatives to the relatively high prices of US apples from the 2001/2002 crop. Initial indications are that, from both product quality and handling perspectives, the supply from North Asia imported to date has fallen short of importer and consumer expectations. In terms of price, Japanese apples are reportedly sold at a slight premium and Korean apples at a slight discount to US apples.

The future ability of South Korean and Japanese suppliers to improve their quality and delivery of apples will greatly influence their potential to keep and, perhaps, grow the volume of their sales in Taiwan. Meanwhile, it is anticipated that these two countries should lose in MY2002 (most likely to the US) some of the market share gained in MY2001.

The China Factor in Competition for the Post-WTO Taiwan Apple Market

Private investment has been flowing from Taiwan into China to develop Fuji apple production - particularly Shandong province, China's major deciduous fruit farming area. As the world's largest producer of apples, China, and its potential to export large quantities of cheap, good quality apples to Taiwan now that both are in the WTO, is of concern to many apple exporters.

The entry of Chinese apples into Taiwan presently hinges on Taiwan's certification of China's phytosanitary controls in apple growing areas and handling processes. Certification will not happen until the two sides agree to negotiate how such certification is to be done. Continued uneasy political relations between the two sides of the Taiwan Strait give no indication as to when such negotiations may start. Therefore, industry believes it highly unlikely that Chinese apples will arrive in the market before 2005. However, presuming that Chinese apples will eventually be permitted in, some in industry believe that the United States can retain its position as leading apple supplier to the island. Factors in support of this opinion include:

(1) ***Quality***. While China has cultivated apples for centuries, the Fuji apple - in greatest demand and still fetching premiums in international markets - is a relative newcomer. Experience and time is required to develop not only the technical infrastructure (such as proper storage, handling/packing, & transportation facilities) but also the expertise to cultivate, select, grade, package, and deliver the premium Fuji apples in the manner which Taiwan distributors and consumers expect. Apples from China smuggled into Taiwan and sold on the market in 1997 &

1998 elicited significant curiosity from consumers but reportedly failed to impress with their appearance, taste, or price.

(2) ***Price***. Industry watchers report that, when China exports its highest quality apples, quoted prices have not been significantly different from those quoted by US suppliers. Factors for such may include continued limited high-quality supply from growers, high non-labor-related production costs, and the fact that investment in new Fuji cultivation in China comes principally from small-scale domestic, Taiwan, and other investors interested (at least in the near term) to "meet" market prices in order to recoup investment costs.

(3) ***Season***. China's apple season is similar to that of Washington State. Apples from other growing regions in the US, such as California, should face less direct competition in Taiwan from China growers.

(4) ***Domestic Consumption***. China's own blossoming domestic demand for high quality apples may meet or even exceed domestic production capacity, leaving little for export - even as production volume expands. Also, Taiwan investors in Chinese orchards are reportedly most interested to develop domestic PRC market sales.

Prices & Marketing

Since 1998, the apple industry in Taiwan has faced a downward pricing curve as generally increasing annual demand is offset by rising import volumes. With most producing countries supplying apples, Taiwan continues to be a "buyers' market" with demand influenced significantly by supplier marketing and pricing strategies. Prices between and within apple varieties vary greatly based on seasonal consumption variations, supplier country-of-origin, supplier pricing competition, and so on. The current market bears little resemblance to that of a decade ago, when Fuji apples were available in extremely limited quantities and suppliers could demand, and receive, high premiums on sales.

As mentioned earlier in this report, the apple symbolizes many positive things to the Taiwan consumer. When purchased as a gift or to serve to others, the country of origin, size, appearance, and taste remain as important as price in the consumer's decision to buy. Therefore, to maintain its dominant position - particularly against "new" competitors such as Japan, Korea and (eventually) China - US suppliers are recommended to continue working closely with Taiwan importers, distributors, and retailers to reinforce the strong positive image that US apples presently enjoy in Taiwan to ensure continued consumer loyalty to US-origin apples.

Statistical Data

Fresh Apple - Production, Supply, and Distribution (PS&D)

PSD Table						
Country	Taiwan					
Commodity	Fresh Apples				(HA)(1000 TREES)(MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		07/2001		07/2002		07/2003
Area Planted	805	805	0	800	0	800
Area Harvested	780	780	0	780	0	780
Bearing Trees	332	335	0	330	0	330
Non-Bearing Trees	3	0	0	3	0	3
Total Trees	335	335	0	333	0	333
Commercial Production	7500	8000	0	9500	0	7500
Non-Comm. Production	75	75	0	70	0	70
TOTAL Production	7575	8075	0	9570	0	7570
TOTAL Imports	118000	121,912	0	117000	0	125000
TOTAL SUPPLY	125575	129987	0	126570	0	132570
Domestic Fresh Consump	125505	129917	0	126500	0	132500
Exports, Fresh Only	0	0	0	0	0	0
For Processing	0	0	0	0	0	0
Withdrawal From Market	70	70	0	70	0	70
TOTAL UTILIZATION	125575	129987	0	126570	0	132570

Fresh Apple Imports (in metric tons)

Commodity	Fresh Apples	
Time period	June - July	unit: mt
Imports for:	2000	2001
U.S.	114077	80746
Others		
Chile	11157	14583
New Zealand	4456	13644
Japan	1596	5600
South Korea	0	2650
Australia	1703	1736
South Africa	1104	1276
France	869	894
Argentina	111	494
Canada	89	252
Total for Others	21085	0
Others not Listed	0	37
Grand Total	135162	121912

Fresh Apple Exports (in metric tons)

Commodity	Fresh Apples	
Time period	June - July	unit: mt
Exports for:	2000	2001
U.S.	0	0
Others		
	0	0
Total for Others	0	0
Others not Listed	0	0
Grand Total	0	0